MONETARY POLICY COMMITTEE STATEMENT FOR FIRST QUARTER 2017

Governor's Presentation to the Media

17th May, 2017

INTRODUCTION

The presentation is structured as follows:

1. **Decision of the Monetary Policy Committee**
2. **Overview**
3. **Global economic developments**
4. **Domestic economic developments**
5. **Macroeconomic outlook**

MONETARY POLICY DECISION

At the Meeting held on 15– 16 March 2017, Monetary Policy Committee decided to:

1. **Lower the Policy Rate by 150 basis points to 12.5% from 14.0%; and**

2. **Reduce the Statutory Reserve Ratio by 300 basis points to 12.5% from 15.5%**

MONETARY POLICY DECISION

The Committee took into account the following factors in arriving at its decisions:

- **The continued decline in inflation, with the inflation forecast to remain well below the 2017 target of 9.0% and within the medium-term target range of 6-8% by early 2019;**
- **The prevailing high lending rates, which continue to constrain access to credit by the productive sectors of the economy, as reflected in the sustained contraction of credit to the private sector;**
- **Deterioration in commercial banks' assets, reflected in rising NPLs to 10.6% in March 2017 from 10.0% in December 2016; and**
- **Subdued economic growth.**

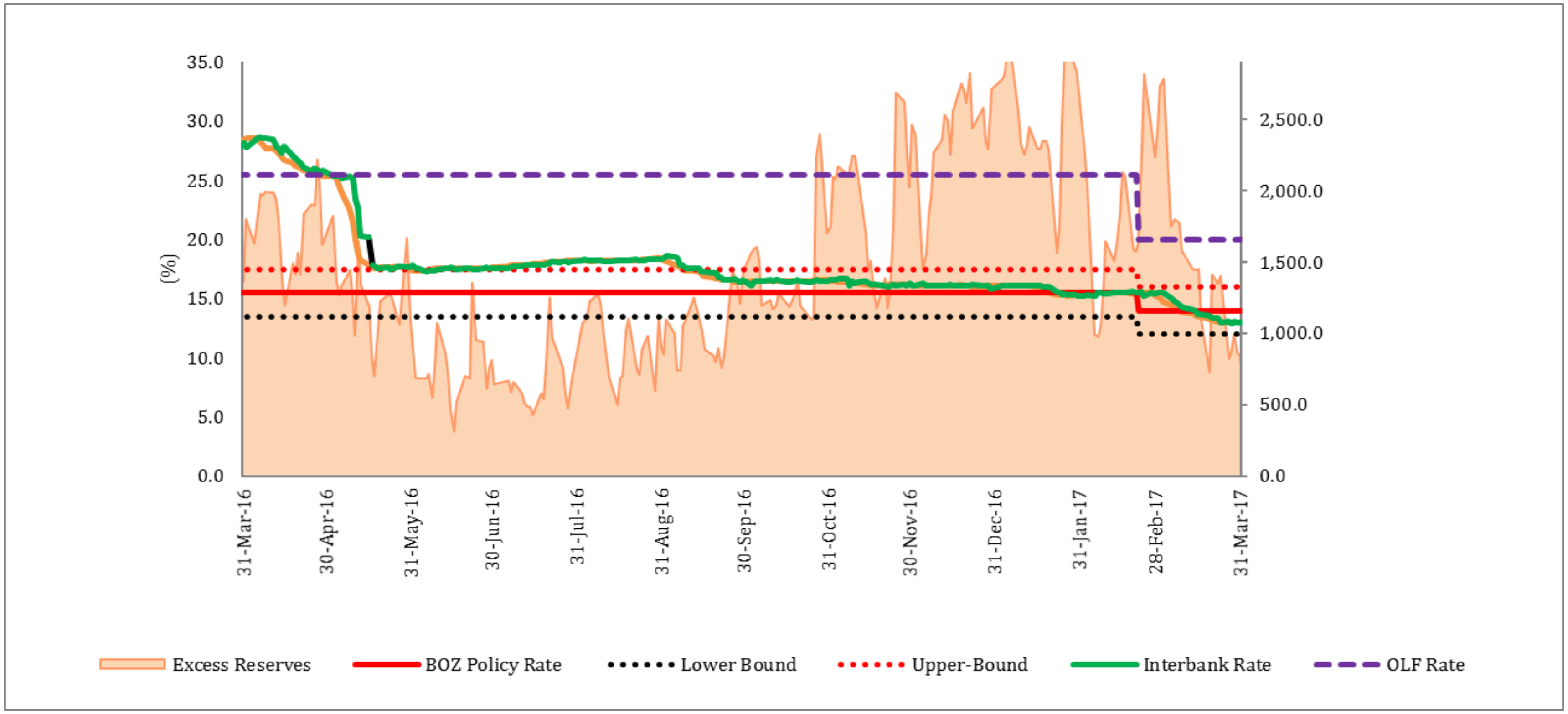
MONETARY POLICY DECISION

To improve the clarity of the policy stance and enhance the effectiveness of the monetary policy framework, the Committee narrowed the Policy Rate corridor to + / - 1 percentage point from + / - 2 percentage points.

OVERVIEW

In Q1, the overnight interbank rate declined to 13.0% from 15.8% at end-Q4 2016 and remained within the Policy Rate corridor

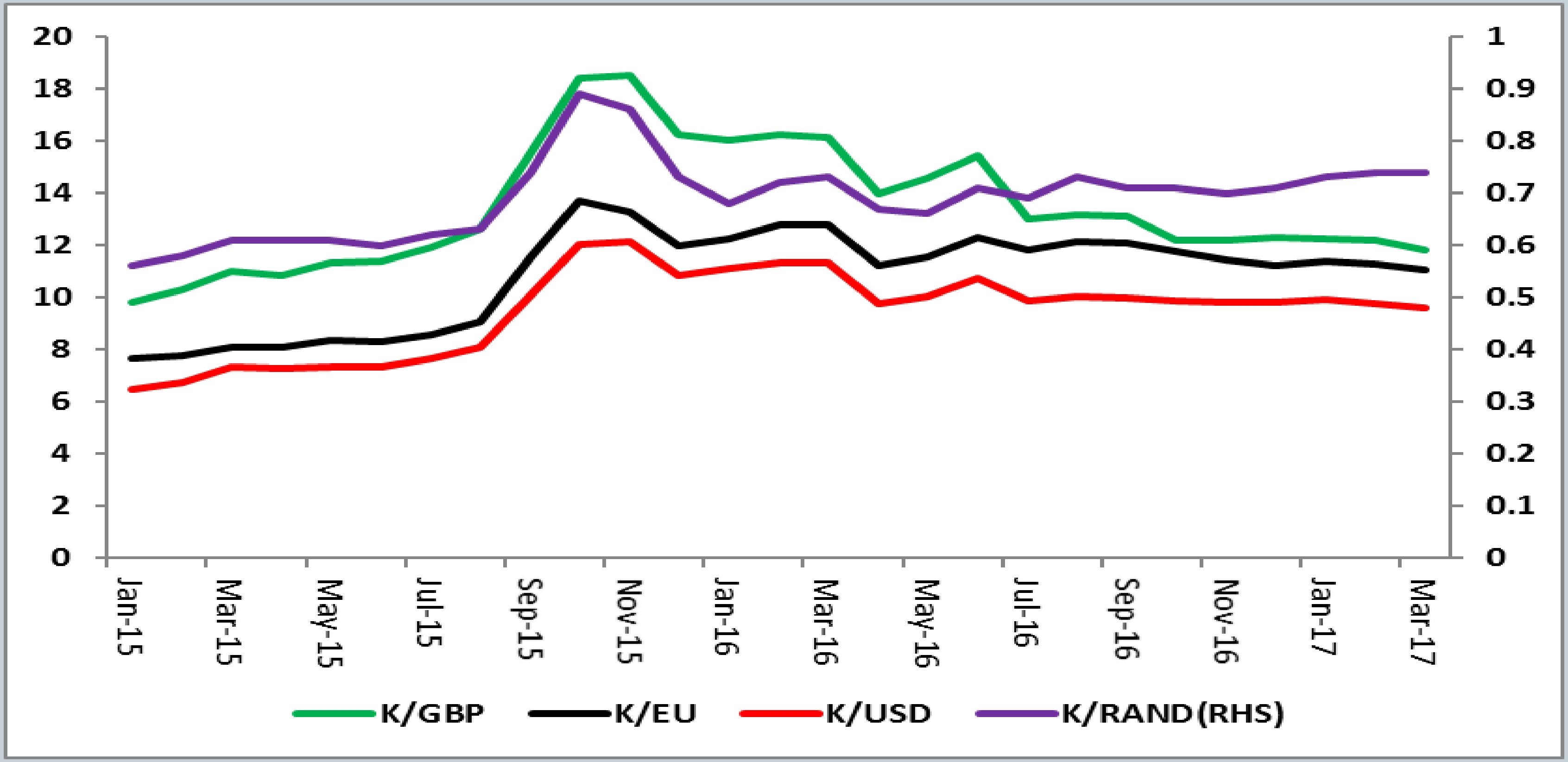
Figure 1: Interest Rates and Excess Reserves



OVERVIEW

The Kwacha gained against the U.S. dollar , *improved supply of foreign exchange and higher copper prices*

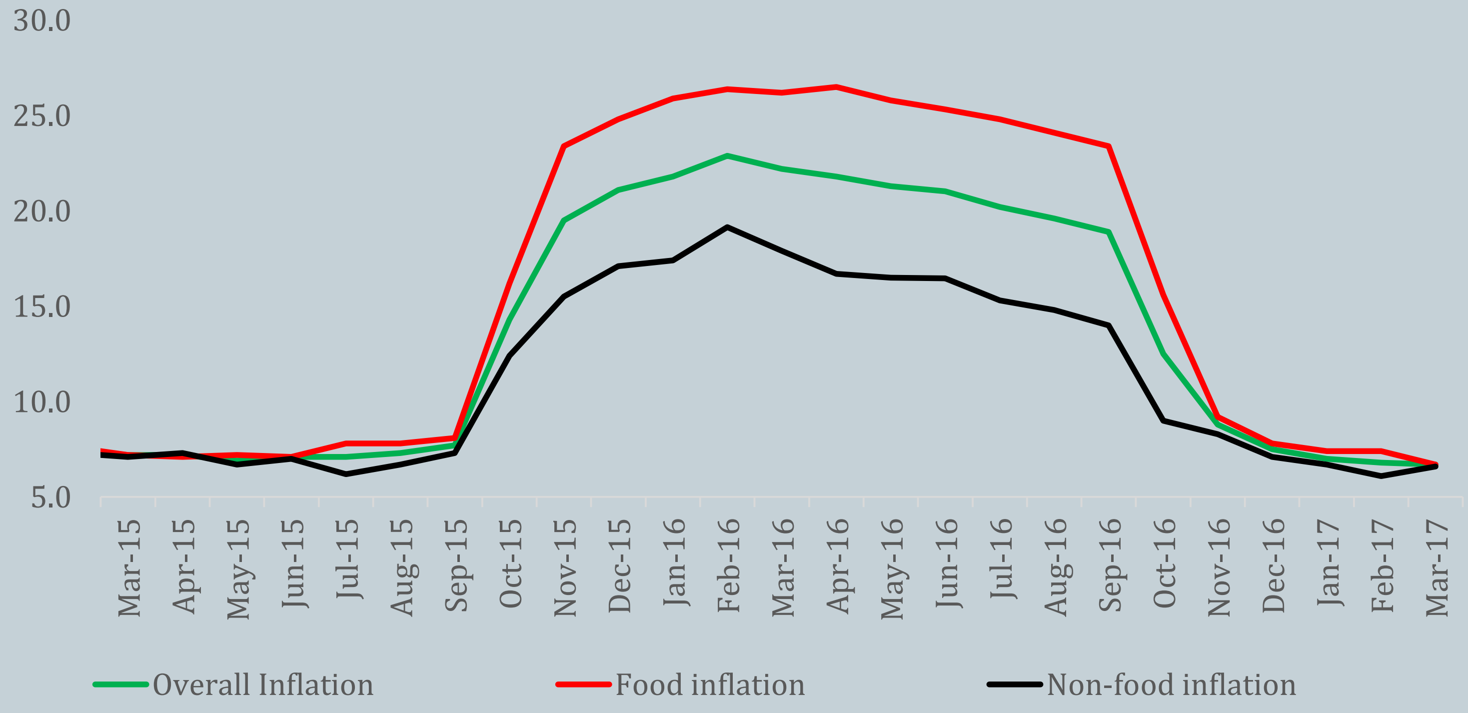
Figure 2: Exchange rate developments



OVERVIEW

Annual inflation decline to 6.7% in March 2017 from 7.5% at end-Q4 2016. In April 2017, inflation remained stable at 6.7%.

Figure 3: Inflation developments



GLOBAL ECONOMIC DEVELOPMENTS

- World GDP growth is projected to rise to 3.5% in 2017 from 3.1% in 2016, premised on strong growth outlook in emerging markets and developing economies (EMDEs).

- Growth in EMDEs is projected at 4.5% in 2017 and 4.8% in 2018, reflecting;

  - recovery in commodity prices
  - stronger demand in China - supported by fiscal policy stimulus measures
  - increased investments - supported by the US stimulus policies

- Global commodity prices generally rebounded in Q1, 2017 (Table 1).

GLOBAL ECONOMIC DEVELOPMENTS

Table 1	2016 Q4	2017 Q1
Copper Price (US$/ton)	5,281.0	5,840.0
Oil Price (Dubai) (US$/barrel)	47.9	52.9
Wheat (US$/ton)	164.3	177.0
Maize Price (US$/ton)	152.2	160.6
Cotton (US$/kg)	1.74	1.87
Sugar (US$/kg)	0.45	0.43
Soya beans (US$/ton)	412.0	419.0

- **Crude oil prices increased in Q1 2017 due to expectations of future robust global demand and supply cuts following the OPEC's and Non-OPEC country agreement to restrict supply in November/December 2016.**
- **Copper prices rose due to improved activities in the Chinese construction sector and anticipated US fiscal policy easing.**

DOMESTIC ECONOMIC DEVELOPMENTS
Monetary Policy Operations

- **Monetary policy operations continued to focus on reducing inflationary pressures and anchoring inflationary expectations.**

- **Market liquidity increased further due to net Government spending and purchase of foreign exchange by BoZ for international reserves build-up (Table 2).**

- **With the easing of monetary policy in February 2017 and the injection of liquidity in the money market, the interbank rate declined to 13.0% at end-Q1 from 15.8% at end-Q4 2016 (Figure 1).**

- **The Bank undertook cash withdrawals through OMO to steer the interbank rate to the Policy Rate (Figure 4).**

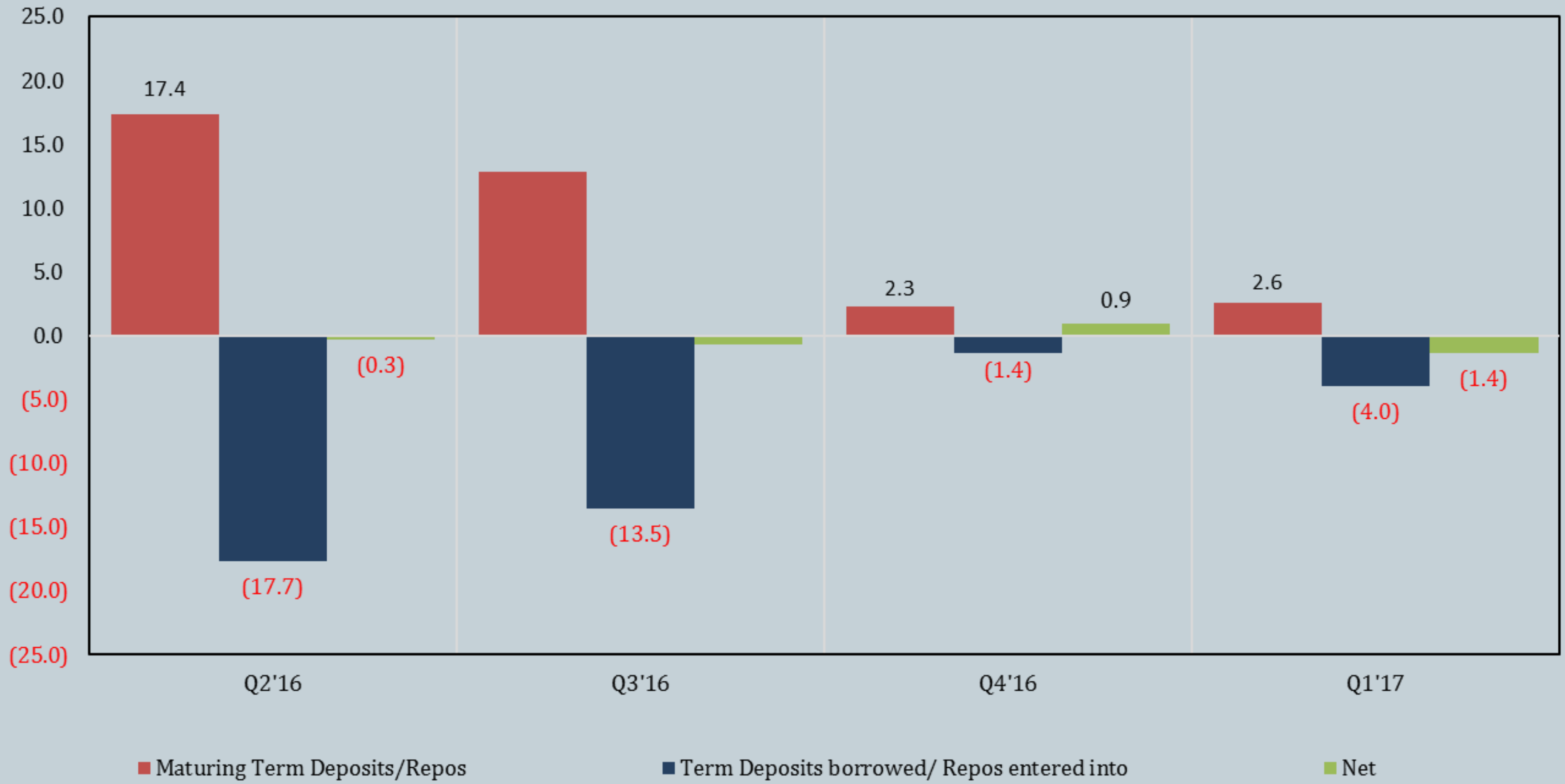
DOMESTIC ECONOMIC DEVELOPMENTS
Monetary Policy Operations

Table 2: Key Liquidity Influences (K' billion)

	2016Q4	2017Q1
Opening balance	1.4	2.7
Net Govt spending	4.1	1.3
BoZ FX influence	2.4	0.6
Change in CIC	-0.6	0.9
Change in SR deposits	-1.5	-0.4
OLF	-0.01	-0.1
Net Govt Securities Influence	-4.7	-3.1
Open market operations	0.9	-1.4
Miscellaneous	0.7	0.3
Closing balance	2.7	0.8

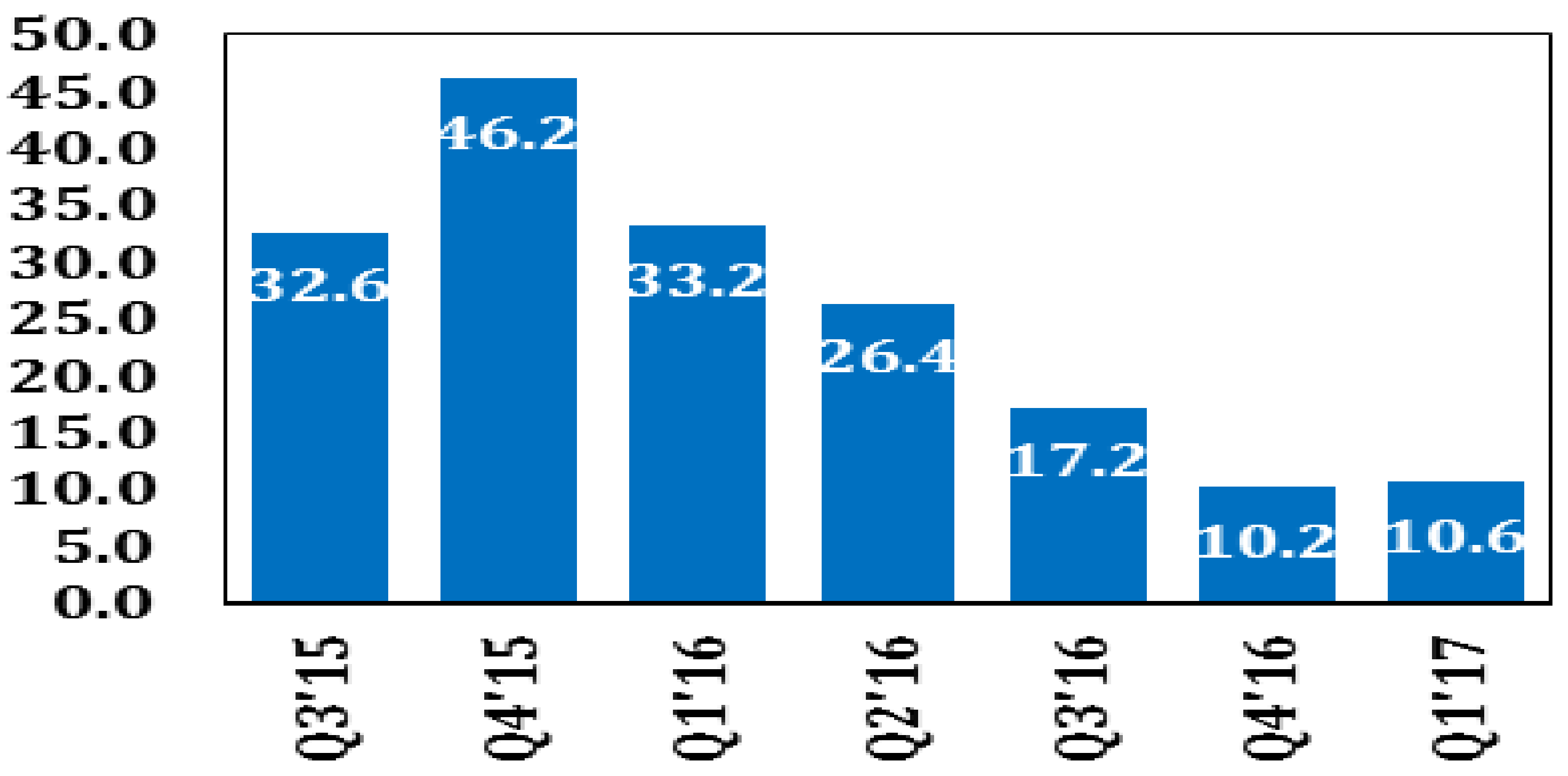
DOMESTIC ECONOMIC DEVELOPMENTS
Monetary Policy Operations

Figure 4: OMO Withdrawals, Quarterly (K' billion)



DOMESTIC ECONOMIC DEVELOPMENTS
Monetary Policy Operations

Figure 5: Interbank Trading Activity (K' billion)



DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

Demand for Government securities continued to be high, with strong participation from foreign investors.

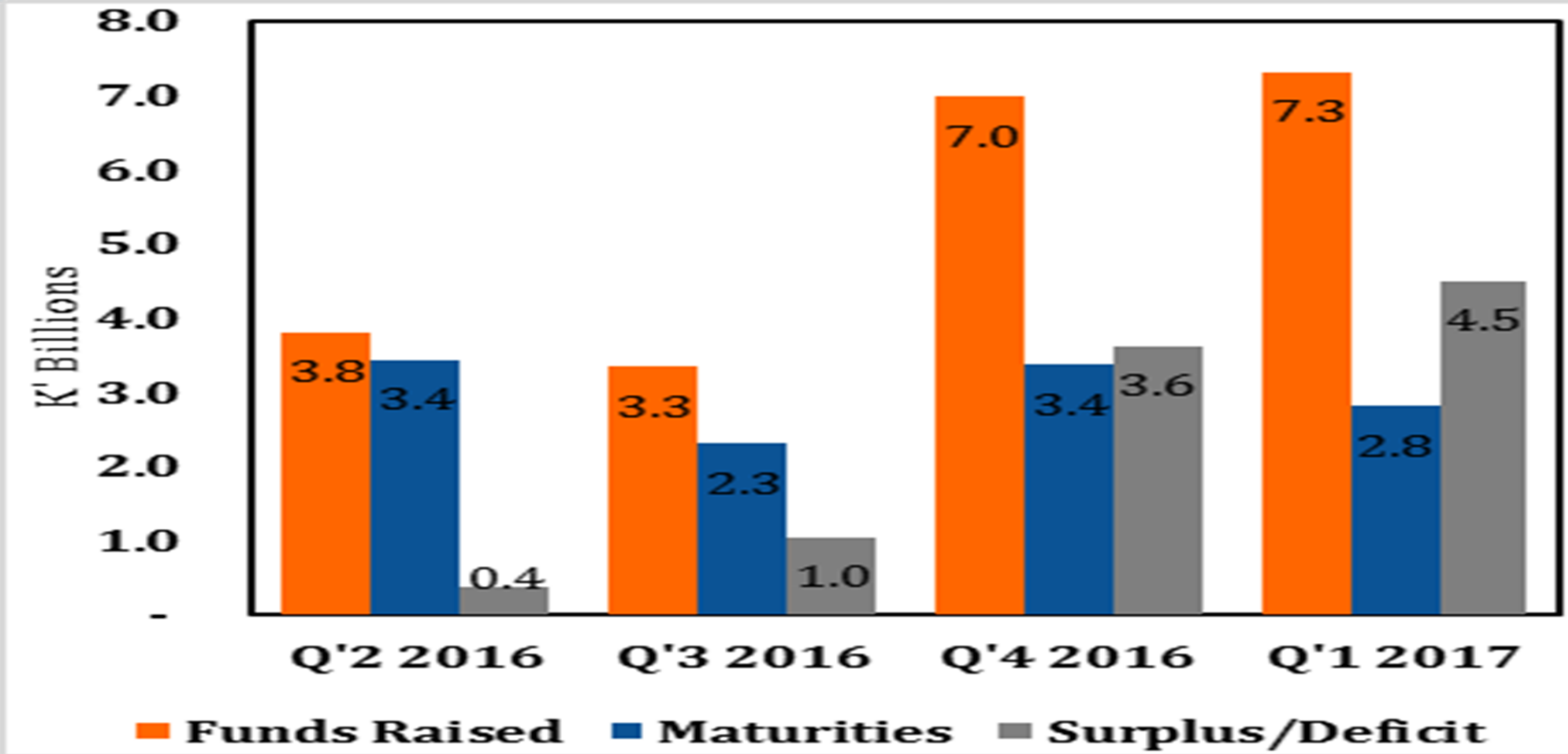
Table 3: Government Securities Auctions

	Amount on offer	Amount Received	Subscription rate (%)
T-bills			
2016Q4	5.3	5.8	109.0
2017Q1	5.4	7.1	131.0
Bonds			
2016Q4	1.8	5.4	300.0
2017Q1	1.0	5.5	550.0

DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

Funds raised from auctions amounted to K7.3 billion against the maturity of K2.8 billion, resulting in a surplus of K4.5 billion.

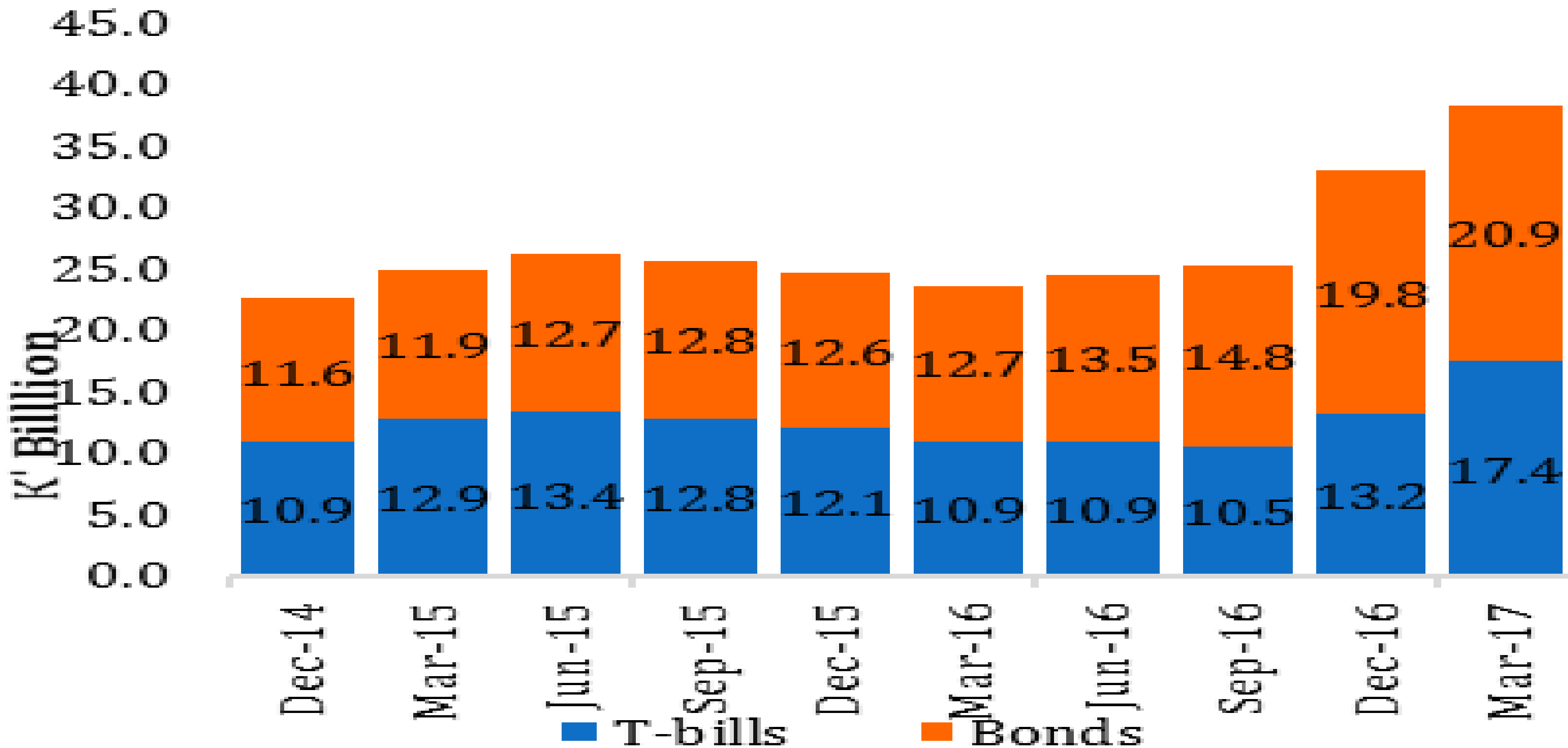
Figure 6: Government Securities



DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

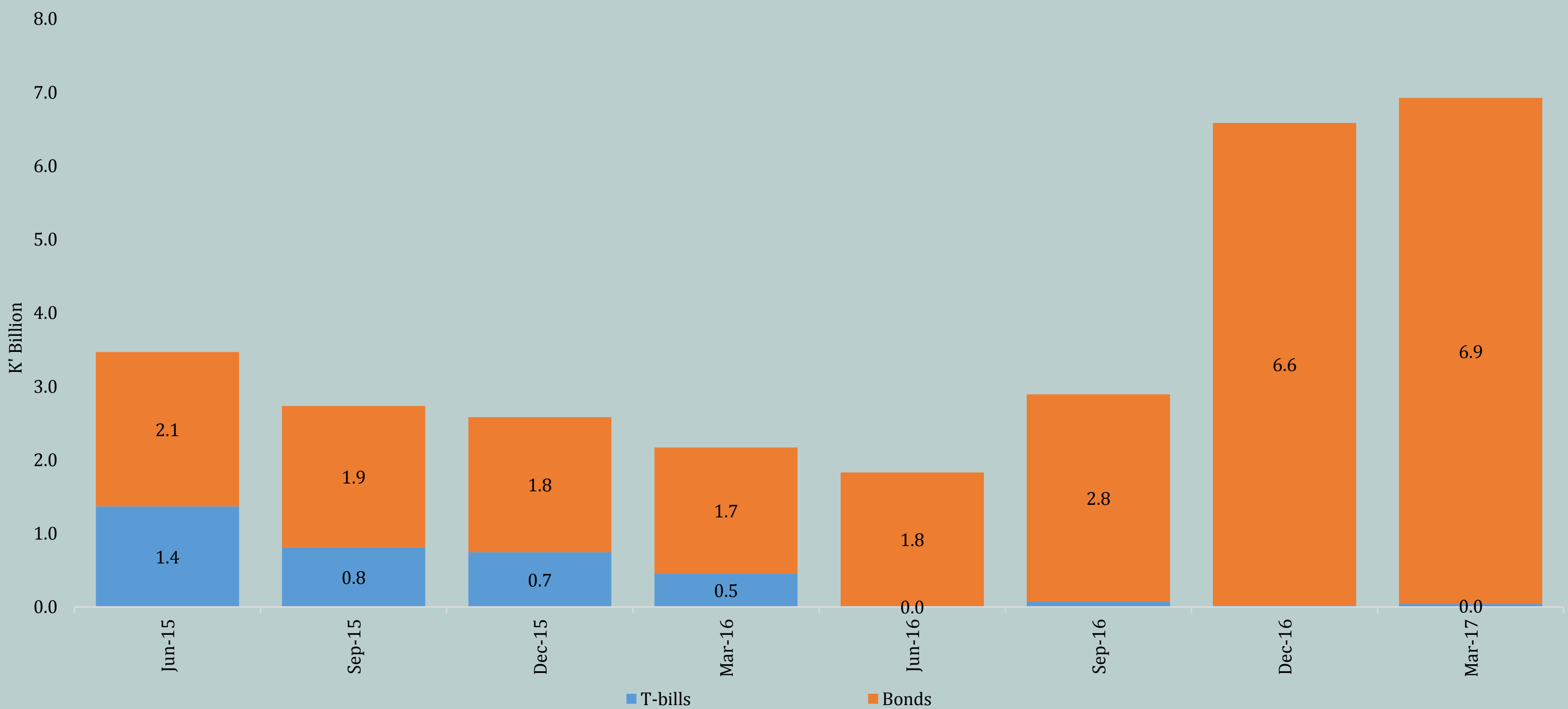
The total outstanding stock of Government securities increased by 16.2% to K38.3 billion.

Figure 7: Total Outstanding Government Securities



Non-resident investors' holdings of Government securities increased to K6.9 billion from K6.6 billion in Q4 2016.

Figure 8: Non-resident Holdings of Government Securities



DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

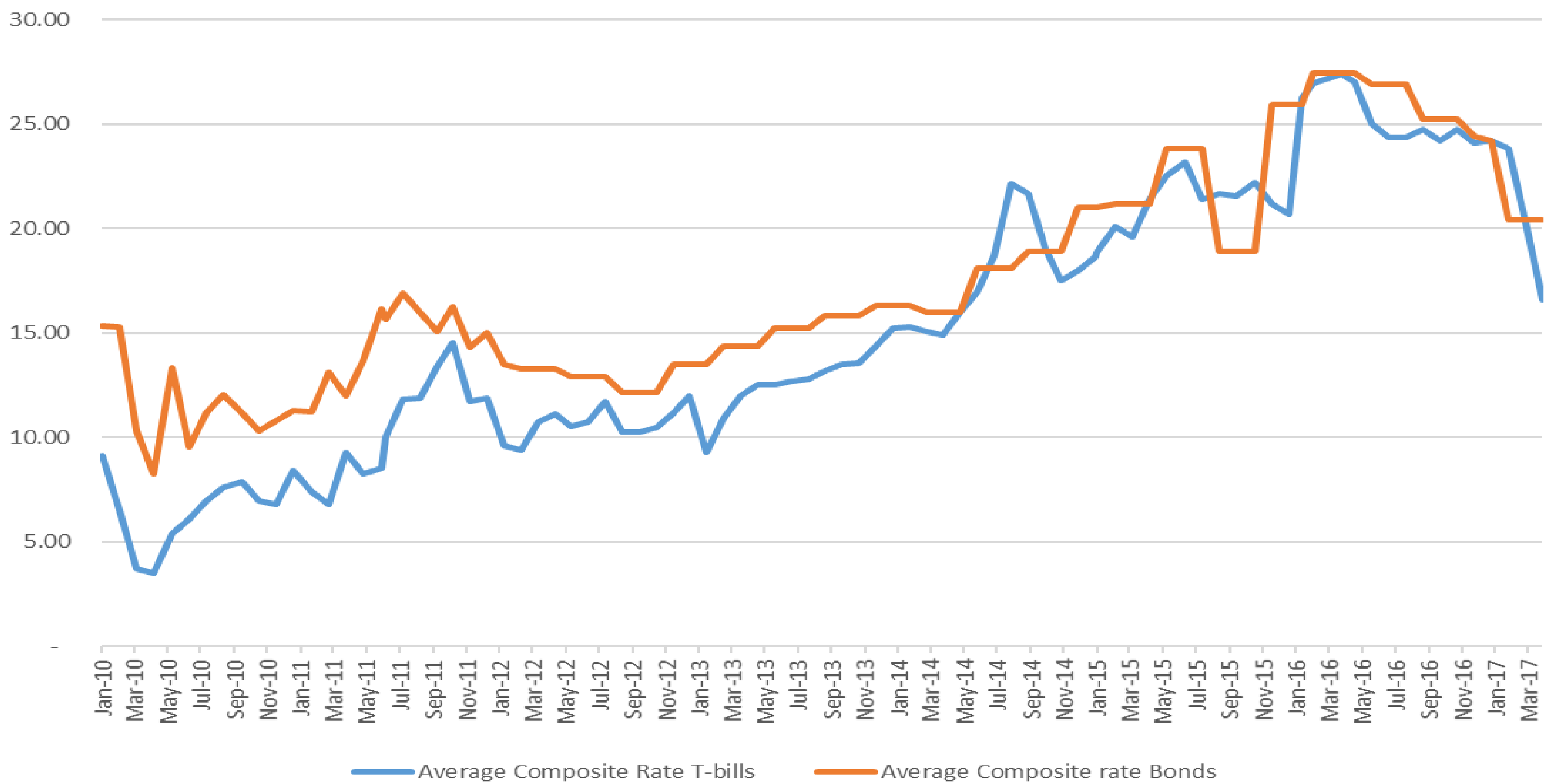
- **Yield rates on Government securities continued to edge downwards in Q1 on the back of easing liquidity conditions (Figure 9).**

- **The weighted average Treasury bills yield rate decline to 16.6% in March 2017 from 24.2% in December 2016.**

- **The weighted average Government bond yield rate fell to 20.4% from 25.0%.**

DOMESTIC ECONOMIC DEVELOPMENTS
Government securities market

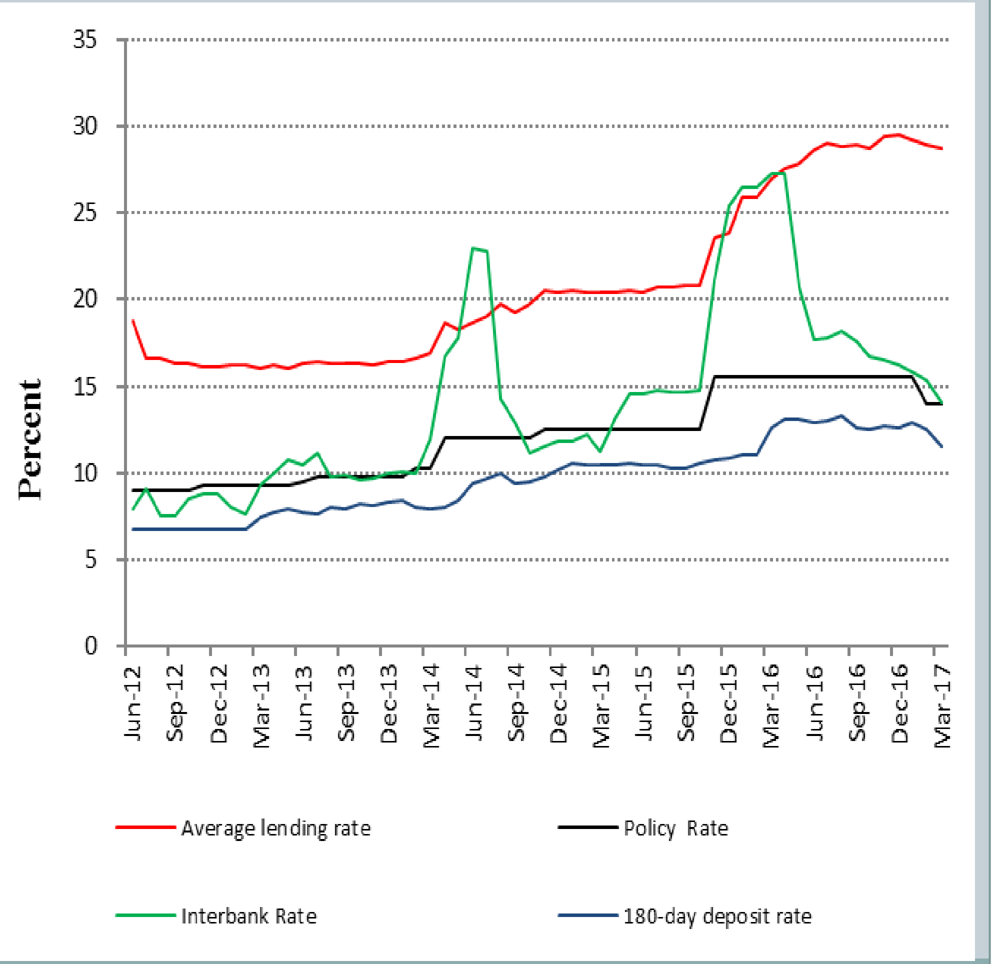
Figure 9: Government securities yield rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS
Banks' Nominal Interest Rates

- **The average lending rate declined to 28.8% in Q1 from 29.4% in December 2016.**
- **Lending rates ranged from 10% – 38.5% (10.0%-41.0% in Q4);**
- **However, savings rates on negotiated deposits declined slightly (11.0%-31.0% in Q1; 18.5%-36% in Q4 2016).**

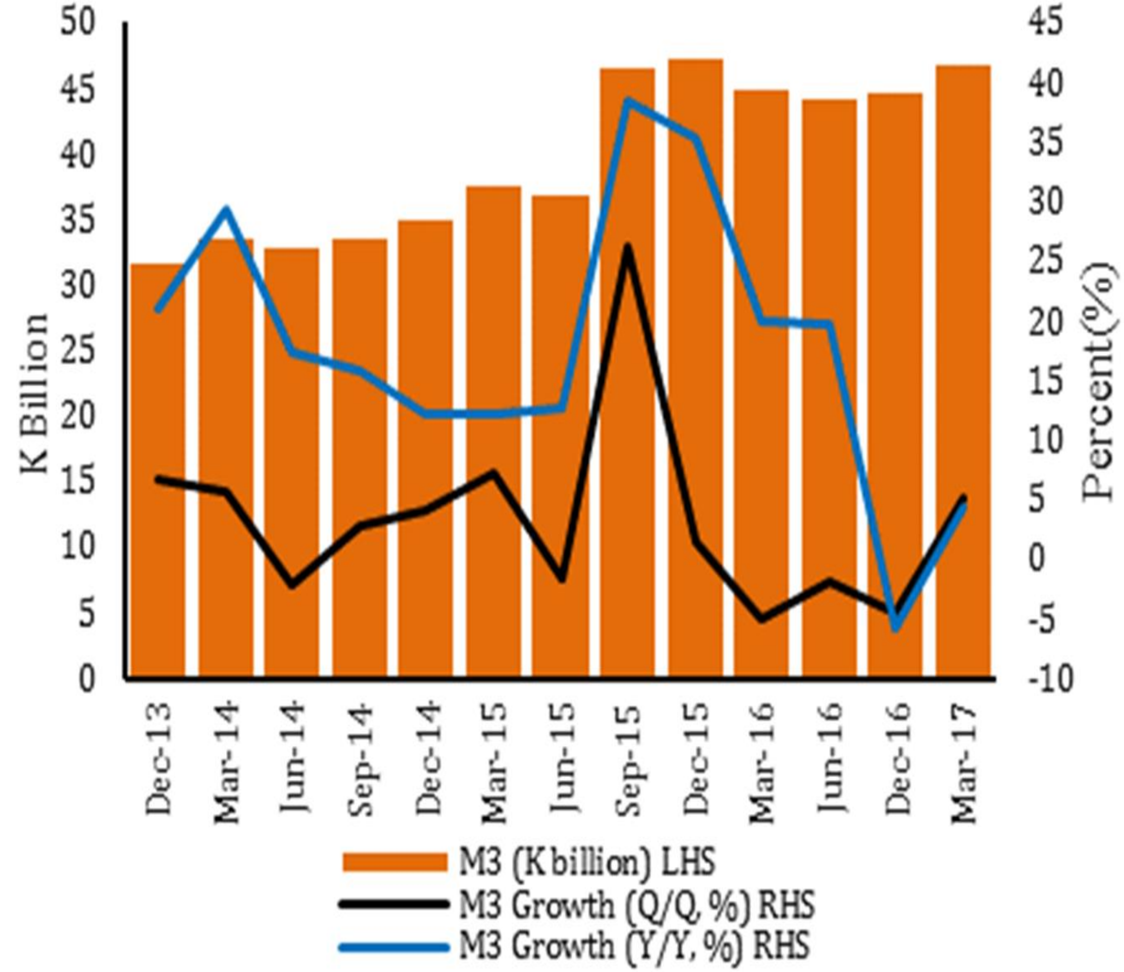
Figure 10: Nominal Interest Rates (%)



DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

- **Money supply grew further by 5.1% in Q1, up from a growth rate of 0.8% in Q4.**
- **Growth mainly driven by a rise in bank lending to Government through T-bills and bonds.**
- **On a year-on-year basis, money supply grew by 4.2% in March compared to a contraction of 5.7% in December.**

Figure 11: Money Supply



DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

- **Growth in total credit increased to 6.5% in Q1 from 1.1% in Q4 2016 (Table 4).**

- **Excluding Government, credit contracted further by 3.2% following a 5.4% contraction in Q4.**

- **Credit to private enterprises continued to decline, falling by 4.8% compared to a decline of 4.6 % in Q4.**

- **Contraction in credit growth to the private sector was mainly due to banks' preference for Government securities, high lending rates, and prohibitive collateral requirements.**

DOMESTIC ECONOMIC DEVELOPMENTS
Money supply and credit

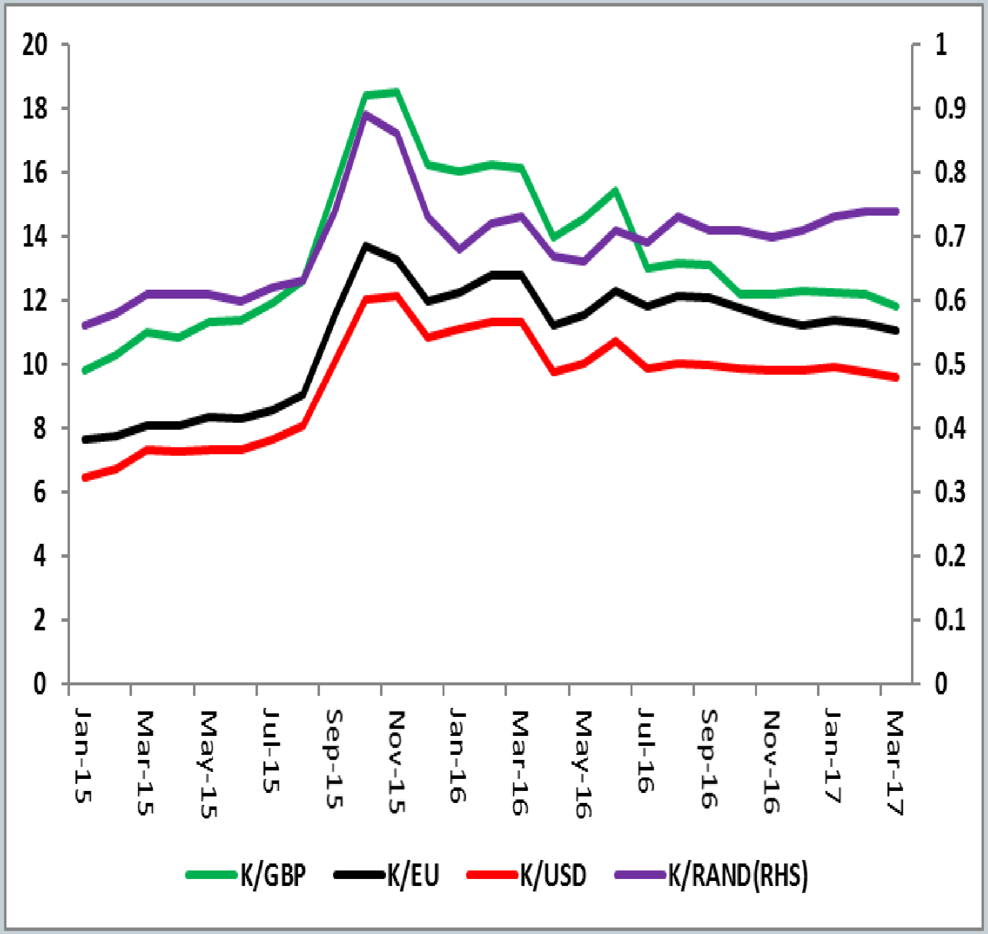
Table 4: Credit growth

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Total Credit (Incl. Govt)	-3.8	0.7	4.9	1.1	6.5
Total -(Excl. Govt)	1.1	-3.7	-1.7	-5.4	-3.2
Public Enterprises	-11.0	-0.3	-3.1	-9.2	-10.0
Government	-11.8	9.0	15.7	10.2	18.1
Private Enterprises	3.6	-5.2	-1.3	-4.6	-4.8
Households	-2.4	-2.1	-0.9	-7.1	-0.3
NBFIs	-1.8	10.3	-0.1	17.6	-7.9

The Kwacha appreciated in Q1 due to increased supply of foreign exchange and higher copper prices (Figure 12).

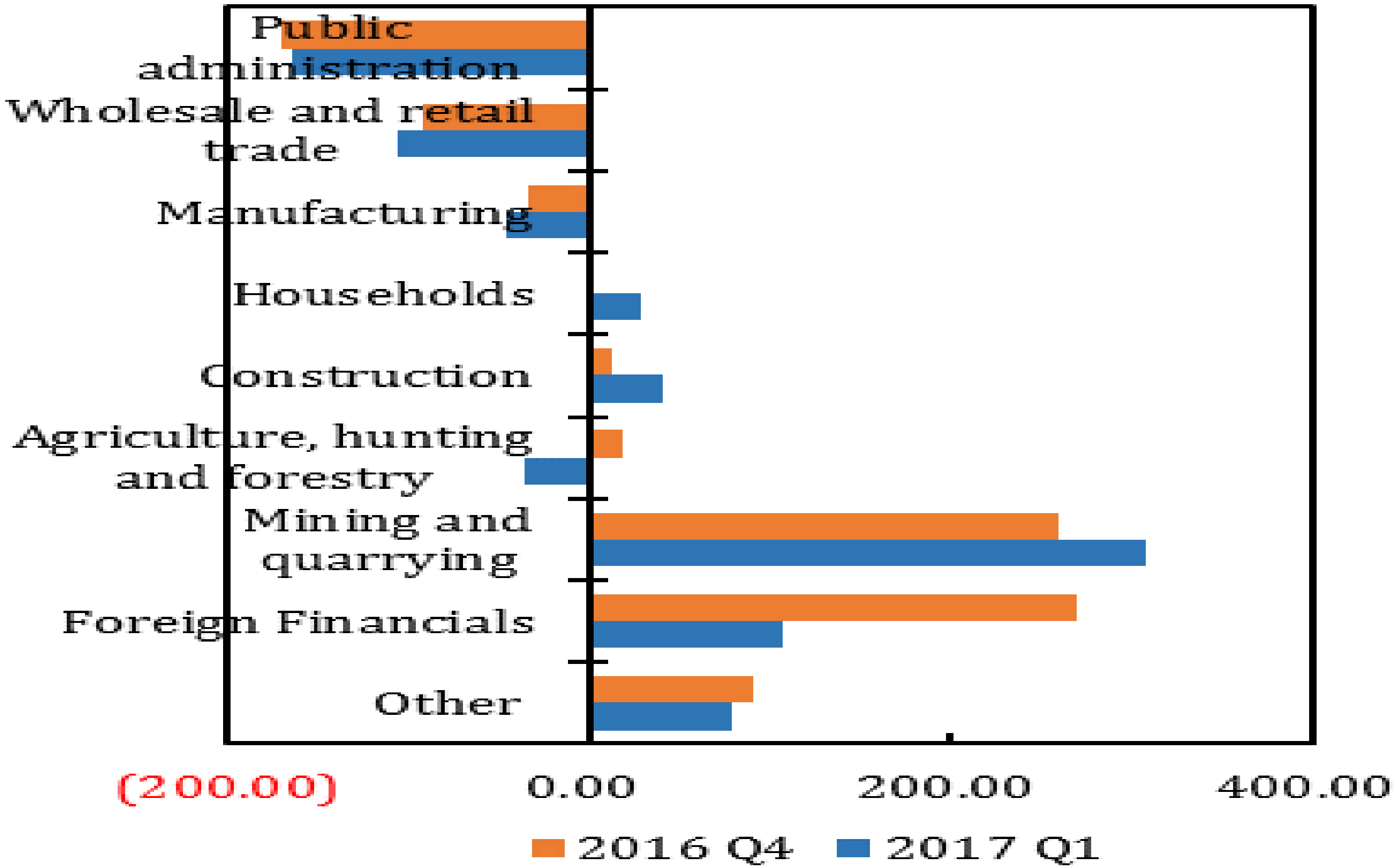
Foreign financials and mining companies' remained the major suppliers, while the Government continued to be the lead buyer (Figure 13)

Figure 12: Exchange rate developments



DOMESTIC ECONOMIC DEVELOPMENTS
Foreign Exchange Market

Figure 13: Supply and Demand (US$'million)



DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

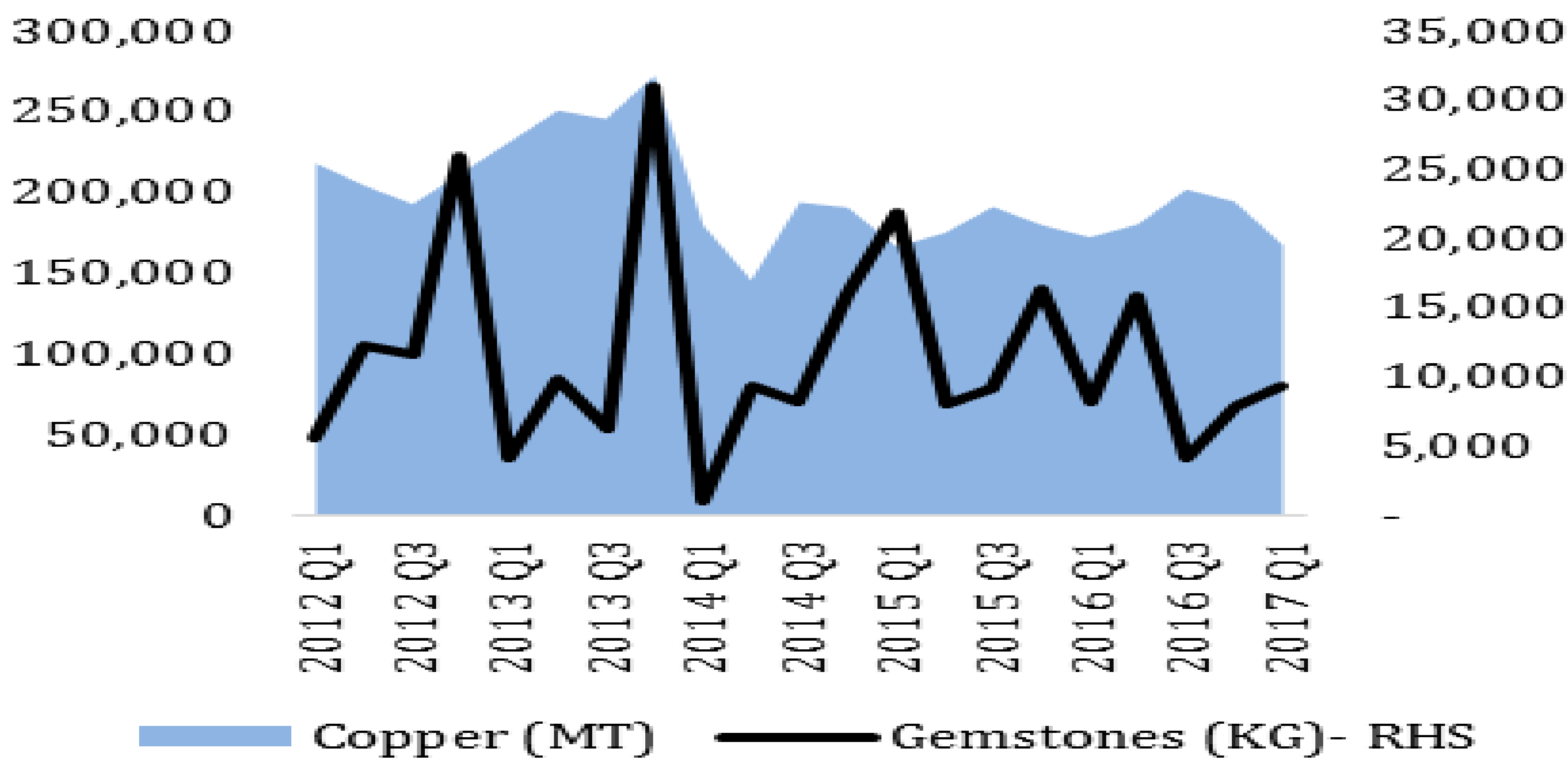
- **In Q1, available real sector data indicate that economic activity generally declined. Seasonal factors affected production in some sectors such as mining, construction, manufacturing, and agriculture. However, electricity generation picked up as water levels in reservoirs improved following above normal rainfall during the 2016/17 rainy season.**

- **Copper production declined by 14.0% to 166,647.2 metric tons while gemstone production increased on account of high mineralization (Figure 14).**

- **Cement production declined by 26.0% due to low construction activities during the rainy season.**

DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

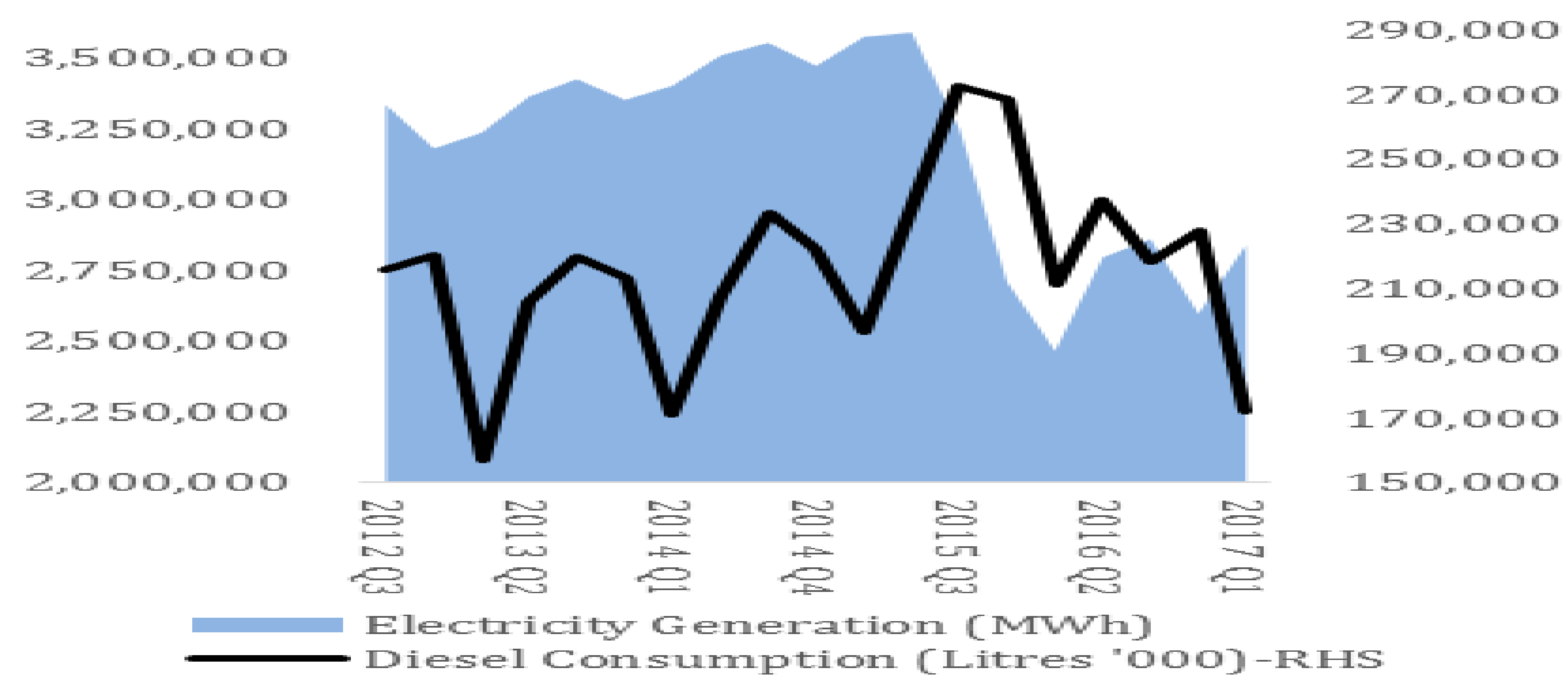
Figure 14: Mining Sector Output



DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

Electricity generation picked up 9.4% to 2, 840, 08.2 Mwh **due to rise in water levels in reservoirs; imports declined further by (8.7%, Q4) as generation recovered; diesel consumption also dropped**

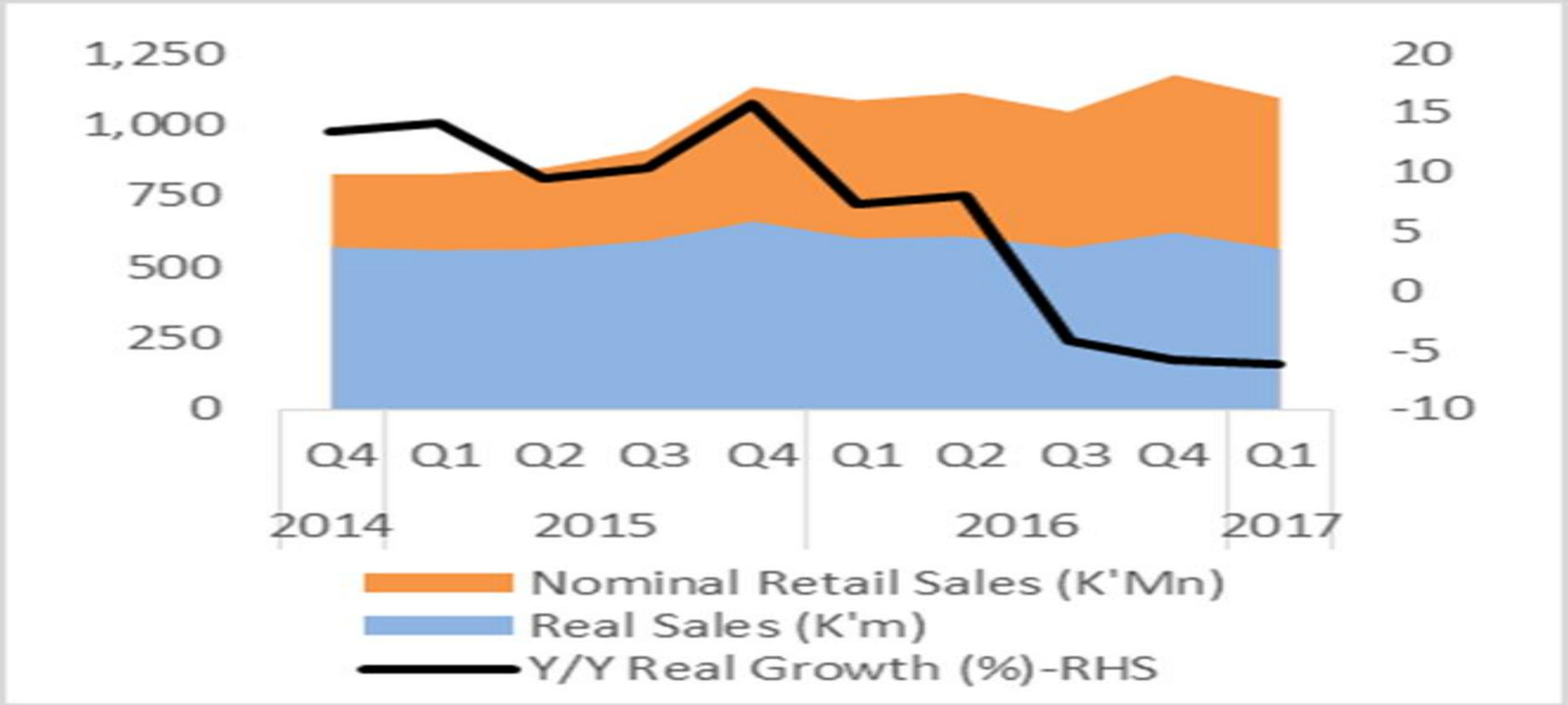
Figure 15: Electricity Generation and Diesel Consumption



DOMESTIC ECONOMIC DEVELOPMENTS
Real Sector Activity

Consumer spending slowed down in Q1 as retail sales rose by 6.9% compared to a rise of 9.5% in Q4.

Figure 16: Retail Sales



DOMESTIC ECONOMIC DEVELOPMENTS
External Sector

The current account deficit narrowed to US$257.1 million from US$574.7 million due to improvements in the trade and primary income balances.

Table 5: Balance of Payments (US$'million)

	Q4 2016	Q1 2017
Curr Acc Bal	-574.7	-257.1
Balance on Goods	-84.7	39.6
Total Exports	1,819.0	2,236.0
Copper	1,253.1	1,778.9
Cobalt	37.9	33.6
Gold	35.0	43.7
NTEs	472.9	363.9
Total Imports	1,903.7	2,196.5
Primary Income	-379.8	-165.3
Secondary Income	52.6	59.6
Services Account	-162.9	-191.0
Capital Acc	13.8	14.8
Financial Acc	-738.0	-207.7
Net Errors/Omissions	-15.6	8.3
Overall Balance	-161.4	26.3
Change in Reserve Assets and Related items	131.3	-29.5

DOMESTIC ECONOMIC DEVELOPMENTS
Fiscal performance

Preliminary data indicate that the fiscal deficit, on a cash basis, at 1.5% of GDP, was broadly in line with the projected 1.6% of GDP in the first quarter. This was a consequence of constrained expenditure in the face of lower revenues.

The deficit was largely financed by increased reliance on domestic financing.

DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

- **Inflation declined to an average of 6.8% from 9.6% in Q4 2016.**
- **At end-Q1, inflation was 6.7%, 0.8 percentage points lower than the end-Q4 2016 outturn of 7.5% (Figure 17).**
- **Food inflation decelerated to 6.7% from 7.8% while non-food inflation declined to 6.6% from 7.1%.**

DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

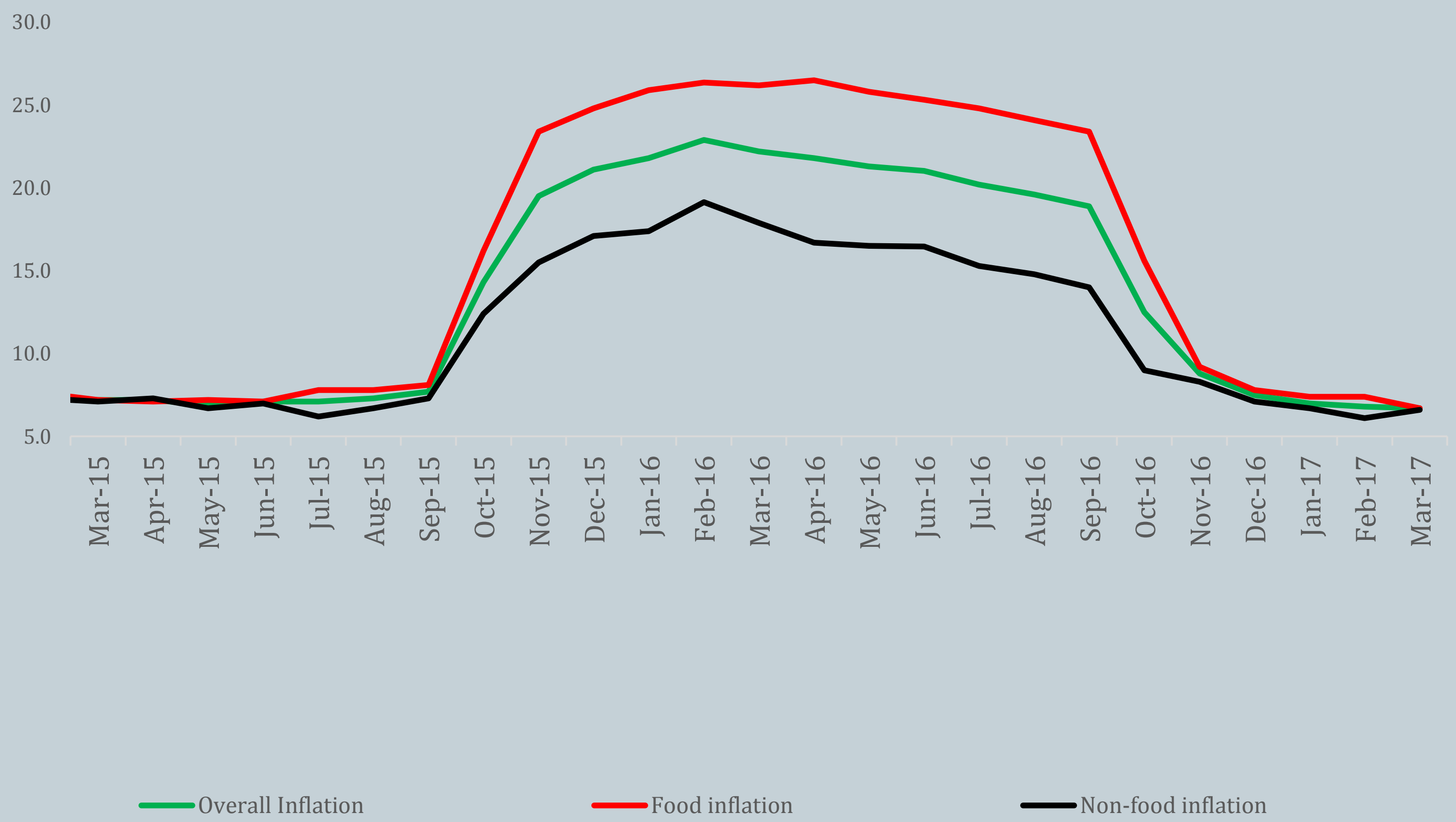
- **Deceleration in overall inflation was mostly driven by the pass-through from the continued appreciation of the Kwacha against the U.S. dollar, the reduction in retail fuel prices in January 2017 and the seasonal increase in the supply of some food items.**

- **Month-on-month inflation declined in Q1, ending at 0.3% in March 2017 from 0.9% in December 2016 (Figure 18).**

- **Inflation is projected to remain within the target range of 6-8% over the medium-term.**

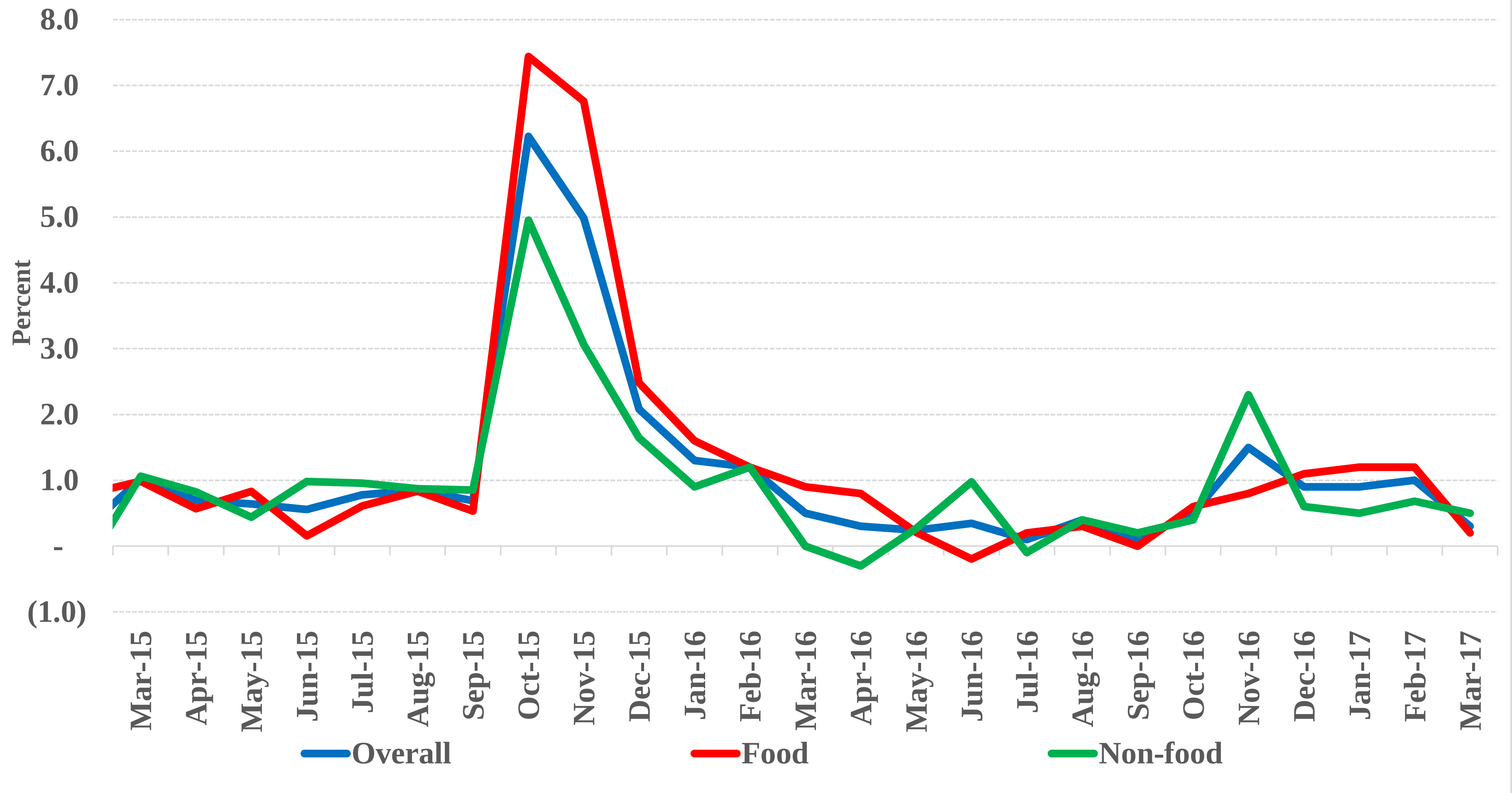
DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

Figure 17: Year-on-year Inflation rate



DOMESTIC ECONOMIC DEVELOPMENTS
Inflation

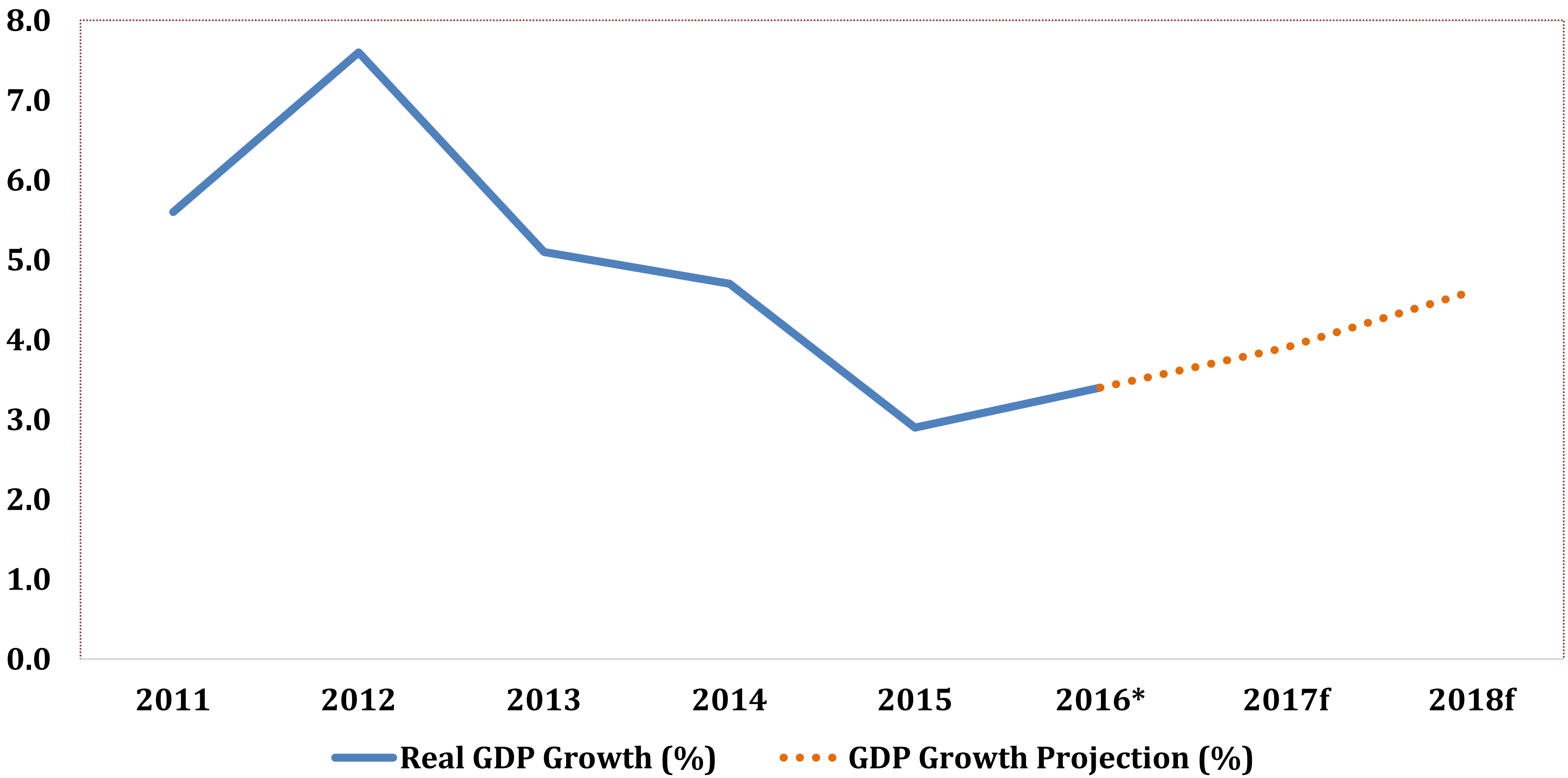
Figure 18: Month-on-month Inflation rate



MACROECONOMIC OUTLOOK
GDP growth

GDP growth projected at 3.9% for 2017 and 4.6% for 2018. In 2016, growth is estimated to be 3.4% (preliminary).

Figure 19: GDP Growth



MACROECONOMIC OUTLOOK
GDP growth

Over the next two years, growth is expected to emanate from

- **agriculture**
- **mining**
- **recovery in energy and construction**
- **manufacturing**
- **accommodation and food services (tourism)**

THANK YOU AND GOD BLESS…